

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of AuGres	County Arenac
Fiscal Year End June 30, 2006	Opinion Date September 4, 2006	Date Audit Report Submitted to Sate December 6, 2006	

We affirm that:

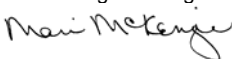
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- SE** **NO** **Check each applicable box below.** (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	Not required this year	
Other (Describe)	<input checked="" type="checkbox"/>	Government Auditing Standards – Section 7 of the financial statements	
Certified Public Accountant (Firm Name) Yeo & Yeo, P.C.		Telephone Number 1	
Street Address 3023 Davenport		City Saginaw	State MI
Authorizing CPA Signature 		Printed Name Mari McKenzie	License Number 10725

City of AuGres
Arenac County, Michigan
Annual Financial Statements
and
Auditors' Report
June 30, 2006

Table of Contents

<u>Section</u>	<u>Page</u>
1 List of Elected and Appointed Officials	1 – 1
2 Independent Auditors' Report	2 – 1
3 Management's Discussion and Analysis	3 – 1
4 Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	4 – 1
Statement of Activities	4 – 2
Fund Financial Statements	
Governmental Funds	
Balance Sheet	4 – 3
Reconciliation of Fund Balances of Governmental Funds to Net Assets of Governmental Activities	4 – 4
Statement of Revenues, Expenditures and Changes in Fund Balances	4 – 5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	4 – 7
Proprietary Funds	
Statement of Net Assets	4 – 8
Statement of Revenues, Expenses and Changes in Fund Net Assets	4 – 10
Statement of Cash Flows	4 – 12
Fiduciary Funds	
Statement of Net Assets	4 – 14
Statement of Changes in Net Assets	4 – 15
Notes to Financial Statements	4 – 16

<u>Section</u>	<u>Page</u>
5	Required Supplemental Information
	Budgetary Comparison Schedule
	General Fund
	Major Street Fund
	Local Street Fund
	Police Fund
	Building Authority Fund
	5 – 1
	5 – 3
	5 – 4
	5 – 5
	5 – 6
6	Other Supplemental Information
	Nonmajor Governmental Funds
	Combining Balance Sheet
	Combining Statement of Revenues, Expenditures and Changes in Fund Balance
	6 – 1
	6 – 2
	Component Unit – Tax Increment Financing Authority
	Budgetary Comparison Schedule
	6 – 3
	Schedule of Indebtedness
	6 – 4
7	Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards
	7 – 1

City of AuGres
List of Elected and Appointed Officials
June 30, 2006

City Council

LaVern Dittenber - Mayor

Tom Ennes - Mayor Pro-Tem

Robert Woolever - Councilman

Jim Dittenber - Councilman

Yvonne Schell - Councilwoman

Other Officers and Officials

Patricia Killingbeck - City Manager

Mary Fresorger - City Clerk/Treasurer

Independent Auditors' Report

To the Honorable Mayor and Members of City Council
City of AuGres

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of AuGres as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of AuGres as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2006 on our consideration of the City of AuGres' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of AuGres' basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

September 4, 2006
Saginaw, Michigan

City of AuGres
Management's Discussion and Analysis
Year Ended June 30, 2006

Our discussion and analysis of the City of AuGres' financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2006.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City of AuGres as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year and whether the taxpayers have funded the full cost of providing governmental services.

The fund financial statements present a short term view; they tell us how the taxpayer's resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

The City of AuGres as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year (in thousands of dollars):

City of AuGres
Management's Discussion and Analysis
Year Ended June 30, 2006

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Current and other assets	\$ 1,614.1	\$ 1,795.8	\$ 191.6	\$ 178.7	\$ 1,805.7	\$ 1,974.5
Capital assets	<u>2,259.9</u>	<u>2,368.1</u>	<u>4,419.1</u>	<u>4,595.5</u>	<u>6,679.0</u>	<u>6,963.6</u>
Total assets	<u>3,874.0</u>	<u>4,163.9</u>	<u>4,610.7</u>	<u>4,774.2</u>	<u>8,484.7</u>	<u>8,938.1</u>
Liabilities						
Current liabilities	213.8	21.5	55.8	22.0	269.6	43.5
Long-term liabilities	<u>976.5</u>	<u>1,398.6</u>	<u>825.0</u>	<u>890.0</u>	<u>1,801.5</u>	<u>2,288.6</u>
Total liabilities	<u>1,190.3</u>	<u>1,420.1</u>	<u>880.8</u>	<u>912.0</u>	<u>2,071.1</u>	<u>2,332.1</u>
Net assets						
Invested in capital assets -						
Net of related debt	1,131.9	969.5	3,611.2	3,705.5	4,743.1	4,675.0
Restricted	22.3	130.4	-	-	22.3	130.4
Unrestricted	<u>1,529.5</u>	<u>1,643.9</u>	<u>118.7</u>	<u>156.7</u>	<u>1,648.2</u>	<u>1,800.6</u>
Total net assets	<u>\$ 2,683.7</u>	<u>\$ 2,743.8</u>	<u>\$ 3,729.9</u>	<u>\$ 3,862.2</u>	<u>\$ 6,413.6</u>	<u>\$ 6,606.0</u>

City of AuGres net assets of governmental activities are \$2,683,700 and \$3,729,900 for business type activities; of these amounts \$1,529,500 (governmental) and \$118,700 (business-type) are unrestricted assets.

The change in net assets for governmental activities is a reflection of capital projects completed in fiscal year 2005/2006 such as the Main Street intersection project.

City of AuGres
Management's Discussion and Analysis
Year Ended June 30, 2006

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue						
Program revenue						
Charges for services	\$ 51.6	\$ 51.6	\$ 524.6	\$ 557.8	\$ 576.2	\$ 609.4
Operating grants and contributions	128.8	180.0	-	-	128.8	180.0
Capital grants and contributions	-	185.8	-	-	-	185.8
General revenue						
Property taxes	408.4	379.2	-	-	408.4	379.2
State-shared revenue	85.7	188.7	-	-	85.7	188.7
Interest	31.7	17.5	5.0	2.9	36.7	20.4
Franchise fees and other revenue	25.7	110.1	30.6	13.4	56.3	123.5
Total revenue	<u>731.9</u>	<u>1,112.9</u>	<u>560.2</u>	<u>574.1</u>	<u>1,292.1</u>	<u>1,687.0</u>
Program expenses						
General government	256.1	244.0	-	-	256.1	244.0
Public safety	92.6	85.8	-	-	92.6	85.8
Public works	231.1	241.0	-	-	231.1	241.0
Community and economic development	59.2	70.4	-	-	59.2	70.4
Recreation and culture	69.8	89.5	169.9	180.9	239.7	270.4
Interest on long-term debt	9.8	57.0	-	-	9.8	57.0
Water and sewer	-	-	595.9	609.7	595.9	609.7
Total program expenses	<u>718.6</u>	<u>787.7</u>	<u>765.8</u>	<u>790.6</u>	<u>1,484.4</u>	<u>1,578.3</u>
Change in net assets, before transfers	13.3	325.2	(205.6)	(216.5)	(192.3)	108.7
Transfers	(73.3)	-	73.3	-	-	-
Change in net assets	<u>\$ (60.0)</u>	<u>\$ 325.2</u>	<u>\$ (132.3)</u>	<u>\$ (216.5)</u>	<u>\$ (192.3)</u>	<u>\$ 108.7</u>

City of AuGres
Management's Discussion and Analysis
Year Ended June 30, 2006

Governmental Activities

The City of AuGres' total governmental activity revenues were \$731.9 thousand. Governmental activity expenses of \$718.6 thousand were recorded for the year. This year additional staff time is reflected with library staff and maintenance now under jurisdiction of the City.

Business Type Activities

The City of AuGres' total business-type activity revenues were \$560.2 thousand and expenses were \$765.8 thousand.

The City of AuGres business-type activity consists of Water Fund, Sewer Fund, Park Fund and Boat Access and Harbor Fund.

Water Fund

The City provides treated water to the City residents. Raw water is purchased from Saginaw-Midland Water Supply System. The City also provides water to approximately 40 AuGres Township customers, along US-23 west of the City. The City has a revenue bond debt for recent system wide improvements. Fiscal year 2006 shows we had a 5,076,000 gallon decrease in volume of water sold from 2005. This loss is due to the State of Michigan issuing a well permit to the largest industrial water customer in the City, Bessinger Pickle Company, Inc. The number of users is stable. There are additional testing requirements through the EPA for state 2 qualifications that will increase costs.

Sewer Fund

The City also provides municipal sanitary sewer to its residents. The City's largest industrial sewer customer (Bessinger Pickle) in the City received a NPDES Discharge Permit from Michigan DEQ allowing discharge directly into the AuGres River rather than using the City's sanitary sewer system.

Park Fund

Another business activity is the City operated campground and recreation facility. This has been operated by the City for the past 51 years – operations were expanded recently with additional campsites, new bathhouse, etc.

The new bath house/campsite project reflected a change in utility rate structure levied by Consumers Energy resulting in a tremendous increase in electric expense.

City of AuGres
Management's Discussion and Analysis
Year Ended June 30, 2006

In addition, seasonal usage of campers declined in part as a result of high gas prices restricting travel of senior citizen groups, decline of perch fisheries in Lake Huron – a popular draw for senior campground guests, and a number of seasonal customers were lost as a result of competition by a local condo campground encouraging rentals rather than lot sales.

Boat Access Site & Harbor Fund

The City entered into the 3rd year of a 15 year lease agreement with the State of Michigan to operate the Federal Harbor of Refuge, State Boat Docks and the State Boat Launch.

The City is still experiencing a loss in operations of this program. The State of Michigan (DNR) required that the city sell state stickers at the Boat Access Site location and accept any already sold at other locations. This mandate limits revenue potential for the City. City officials believe revenues would have been even better if the City was not required to honor stickers sold at other state locations without being reimbursed by the State of Michigan. Additional staff was hired to operate longer hours, which also added to overhead for payroll activities, etc.

Due to extremely high gas prices and a continued perception that water depths are low in the AuGres River and Saginaw Bay/Lake Huron, activity again was very slow at the Harbor. Harbor dockage decreased in spite of being operating 7 days a week, due to a perception that the AuGres River was not travelable.

City of AuGres Funds

The fund financial statements provide detailed information about the most significant funds, not the City of AuGres as a whole. The City Council creates funds to help manage money for specific purposes as well as show accountability for certain activities, such as State of Michigan Act 51, Major and Local Street funds for 2006. The AuGres City governmental major funds include General Fund, Major and Local Street Funds, Police Fund, Building Authority Fund, Capital Project Fund and 1998 Improvement Fund.

a) **General Fund**

Functions relating to the general governmental activities of the City, which are financed by property tax levies, by distribution of State revenues from fees charged for various municipal activities and services are recorded in the General Fund. This fund had a decreased fund balance of \$70,000.

City of AuGres
Management's Discussion and Analysis
Year Ended June 30, 2006

b) Major and Local Street Funds

The State of Michigan provides municipalities revenues from gas and weight taxes to reimburse expenditures for the maintenance and construction of the local street system. The State requires that these expenditures be segregated into a Major Street component and a Local Street component. The City uses these funds for improvements to the City street system, along with contributions from the General Fund. The Major Street Funds were utilized for the Main Street intersection project.

c) Police Fund

The Police Fund provides funds for 2 police officers through a joint arrangement with Sims Township.

d) 1998 Improvements Debt Fund

The 1998 Improvements Debt Fund is funded through special assessments to the City's residents. The fund makes payments for special assessment bonds.

e) Building Authority Debt Fund

The Municipal Building Authority was established to finance and construct public buildings. The AuGres – Sims Fire Authority provides an annual lease payment to cover the Building Authority bonded debt requirements.

f) Capital Project Fund

The Capital Project Fund is being used to accumulate funds for a bike path from downtown to the mouth of the AuGres River.

g) Sewer Fund

This fund covers the operations of the City's Sewage Treatment Plant and the maintenance and construction of the sewer distribution system. The sewage treatment fund is responsible for payment out of revenues for 1971 revenue bonds. Another 1971 bond, G.O., is currently levied on taxes. Sewer system revenues are not keeping pace with existing expenditures.

h) Water Fund

This fund finances the operation of the Water Treatment Plant and the entire transmission and distribution system. The City presently has a contract with AuGres Township and those property owners provide additional estimated revenues of \$10,000. All revenues to operate the Water Plant and distribution system is derived from user fees. Water system revenues are not keeping pace with existing expenditures.

City of AuGres
Management's Discussion and Analysis
Year Ended June 30, 2006

i) Park Fund

This fund covered the operation of the City's Riverfront Campground and the maintenance of the park buildings, mowing park grounds, and maintaining/repairing recreation facilities including basketball courts, tennis courts, playground equipment, riverfront walkway, etc. All revenues to operate the Campground are derived from user fees.

General Fund Budgetary Highlights

Over the course of the year, the City Council and City administration monitor and amend the budget to account for unanticipated events during the year. No significant changes to report.

Capital Asset and Debt Administration

At the end of 2006 the City of AuGres has \$6,679,000 invested in a wide range of capital assets, including land, buildings, machinery and equipment, and water and sewer systems. The value of the governmental infrastructure assets, net of depreciation contained in this report, is \$193,000 at the end of 2006. This is the third year of accounting for governmental infrastructure assets, therefore amounts for streets and other infrastructure are only from July 2003 forward.

Debt reported in these financial statements is related to the construction of the above-mentioned infrastructure assets and buildings and is reported as a liability on the statement of net assets.

Economic Factors and Next Year's Budgets and Rates

City operations continue to fall behind revenues due to bond issue obligations, and the City has not yet increased water rates to meet that obligation.

Contacting the City of AuGres' Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City of AuGres' finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the administration offices at city hall.

City of AuGres
Statement of Net Assets
June 30, 2006

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 1,343,495	\$ 143,473	\$ 1,486,968	\$ 49,394
Investments	22,000	-	22,000	-
Receivables				
Taxes	1,294	-	1,294	16,029
Customers	33,449	49,669	83,118	-
Special assessments	119,221	-	119,221	-
Accrued interest and other	-	1,039	1,039	-
Due from other units of government	6,360	1,437	7,797	-
Internal balances	88,535	(88,535)	-	-
Due from component unit	550	-	550	814
Investments	-	84,500	84,500	-
Non-depreciable capital assets	393,450	16,163	409,613	-
Depreciable capital assets, net	1,866,415	4,403,000	6,269,415	-
Total assets	<u>3,874,769</u>	<u>4,610,746</u>	<u>8,485,515</u>	<u>66,237</u>
Liabilities				
Accounts payable	4,391	11,215	15,606	-
Accrued and other liabilities	11,048	10,352	21,400	-
Due to component unit/primary government	814	-	814	550
Due to other units of government	-	1,250	1,250	-
Deferred revenue	14,141	-	14,141	-
Noncurrent liabilities				
Due within one year	184,203	33,000	217,203	-
Due in more than one year	976,497	825,000	1,801,497	-
Total liabilities	<u>1,191,094</u>	<u>880,817</u>	<u>2,071,911</u>	<u>550</u>
Net Assets				
Invested in capital assets, net of related debt	1,131,925	3,561,163	4,693,088	-
Restricted for:				
Debt service	22,265	-	22,265	-
Unrestricted	1,529,485	168,766	1,698,251	65,687
Total net assets	<u>\$ 2,683,675</u>	<u>\$ 3,729,929</u>	<u>\$ 6,413,604</u>	<u>\$ 65,687</u>

See Accompanying Notes to Financial Statements

City of AuGres
Statement of Activities
For the Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit
					Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 256,066	\$ 4,744	\$ -	\$ -	\$ (251,322)	\$ -	\$ (251,322)	\$ -
Public safety	92,695	-	-	-	(92,695)	-	(92,695)	-
Public works	290,304	46,884	120,792	-	(122,628)	-	(122,628)	-
Recreation and culture	69,833	-	8,006	-	(61,827)	-	(61,827)	-
Interest on long-term debt	9,845	-	-	-	(9,845)	-	(9,845)	-
Total governmental activities	718,743	51,628	128,798	-	(538,317)	-	(538,317)	-
Business-type activities								
Sewer	292,234	205,805	-	-	-	(86,429)	(86,429)	-
Water	303,675	223,565	-	-	-	(80,110)	(80,110)	-
Park	120,388	64,171	-	-	-	(56,217)	(56,217)	-
Boat access and harbor	49,470	31,021	-	-	-	(18,449)	(18,449)	-
Total business-type activities	765,767	524,562	-	-	-	(241,205)	(241,205)	-
Total primary government	\$ 1,484,510	\$ 576,190	\$ 128,798	\$ -	(538,317)	(241,205)	(779,522)	-
Component unit								
Tax Increment Financing Authority	\$ 271,447	\$ -	\$ -	\$ -				(271,447)
General revenues								
Property taxes					408,435	-	408,435	318,577
State shared revenue					85,734	-	85,734	-
Unrestricted investment earnings					31,666	4,988	36,654	1,009
Miscellaneous					25,665	30,633	56,298	-
Transfers					(73,268)	73,268	-	-
Total general revenues and transfers					478,232	108,889	587,121	319,586
Change in net assets					(60,085)	(132,316)	(192,401)	48,139
Net assets - beginning of year					2,743,760	3,862,245	6,606,005	17,548
Net assets - end of year					\$ 2,683,675	\$ 3,729,929	\$ 6,413,604	\$ 65,687

See Accompanying Notes to Financial Statements

City of AuGres
Governmental Funds
Balance Sheet
June 30, 2006

	Special Revenue Funds				Debt Service Funds		Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
	General	Major Street Fund	Local Street Fund	Police Fund	1998 Improvement Fund	Building Authority Fund	Capital Project Fund		
Assets									
Cash and cash equivalents	\$ 616,491	\$ 82,237	\$ 93,220	\$ 19,952	\$ 41,848	\$ -	\$ 326,026	\$ 107,790	\$ 1,287,564
Investments	-	-	-	-	-	-	-	22,000	22,000
Receivables									
Taxes	1,294	-	-	-	-	-	-	-	1,294
Customers	33,449	-	-	-	-	-	-	-	33,449
Special assessments	-	-	-	-	101,831	-	-	17,390	119,221
Due from other units of government	(666)	4,476	2,550	-	-	-	-	-	6,360
Due from other funds	69,684	-	901	-	-	-	-	-	70,585
Due from component unit	550	-	-	-	-	-	-	-	550
Total assets	\$ 720,802	\$ 86,713	\$ 96,671	\$ 19,952	\$ 143,679	\$ -	\$ 326,026	\$ 147,180	\$ 1,541,023
Liabilities									
Accounts payable	\$ 3,027	\$ 36	\$ 794	\$ -	\$ -	\$ -	\$ -	\$ 399	\$ 4,256
Due to other funds	-	901	-	-	-	-	-	327	1,228
Due to component unit	-	-	-	-	814	-	-	-	814
Deferred revenue	17,155	-	-	-	99,023	-	-	16,962	133,140
Total liabilities	20,182	937	794	-	99,837	-	-	17,688	139,438
Fund Balances									
Reserved for:									
Debt service	-	-	-	-	-	-	-	22,265	22,265
Unreserved									
Designated for:									
Special projects	138,000	-	-	-	-	-	326,026	61,733	525,759
Unreserved, reported in:									
General fund	562,620	-	-	-	-	-	-	-	562,620
Special revenue funds	-	85,776	95,877	19,952	43,842	-	-	45,494	290,941
Total fund balances	700,620	85,776	95,877	19,952	43,842	-	326,026	129,492	1,401,585
Total liabilities and fund balances	\$ 720,802	\$ 86,713	\$ 96,671	\$ 19,952	\$ 143,679	\$ -	\$ 326,026	\$ 147,180	\$ 1,541,023

See Accompanying Notes to Financial Statements

City of AuGres
Governmental Funds
Reconciliation of Fund Balances of Governmental Funds
to Net Assets of Governmental Activities
June 30, 2006

Total fund balances for governmental funds	\$ 1,401,585
Total net assets for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,140,962
Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.	118,999
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(10,175)
Compensated absences	(32,760)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	(1,050,000)
Internal service funds are included as part of governmental activities.	<u>115,064</u>
Net assets of governmental activities	<u>\$ 2,683,675</u>

City of AuGres
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2006

	Special Revenue Funds				Debt Service Funds		Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
	General	Major Street Fund	Local Street Fund	Police Fund	1998 Improvement Fund	Building Authority Fund	Capital Project Fund		
Revenues									
Taxes	\$ 287,294	\$ -	\$ -	\$ 65,819	\$ -	\$ -	\$ -	\$ 55,322	\$ 408,435
Licenses and permits	8,684	-	-	-	-	-	-	-	8,684
State revenue sharing	90,771	-	-	-	-	-	-	-	90,771
Other state grants	-	59,268	35,524	2,360	-	-	-	-	97,152
Local contributions	-	2,000	-	-	-	-	24,000	-	26,000
Charges for services	40,496	11,132	-	-	-	-	-	-	51,628
Interest income	25,477	1,428	1,206	762	206	233	4,111	1,892	35,315
Other revenue	3,267	2	-	133	25,188	-	-	19,364	47,954
Total revenues	455,989	73,830	36,730	69,074	25,394	233	28,111	76,578	765,939
Expenditures									
Current									
General government	165,461	-	-	-	-	-	-	-	165,461
Public safety	8,217	-	-	76,439	-	-	-	-	84,656
Public works	115,642	39,461	14,856	-	-	-	-	-	169,959
Recreation and culture	5,787	-	-	-	-	-	-	27,856	33,643
Other functions	69,327	-	-	-	-	-	-	-	69,327
Capital outlay	51,385	39,526	1,018	-	-	-	-	-	91,929
Debt service									
Principal retirement	15,000	7,000	7,000	-	30,200	75,000	-	16,000	150,200
Interest and fiscal charges	-	-	-	-	-	6,282	-	3,205	9,487
Total expenditures	430,819	85,987	22,874	76,439	30,200	81,282	-	47,061	774,662
Excess (deficiency) of revenues over expenditures	25,170	(12,157)	13,856	(7,365)	(4,806)	(81,049)	28,111	29,517	(8,723)

See Accompanying Notes to Financial Statements

City of AuGres
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2006

	Special Revenue Funds				Debt Service Funds		Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
	General	Major Street Fund	Local Street Fund	Police Fund	1998 Improvement Fund	Building Authority Fund	Capital Project Fund		
Other financing sources (uses)									
Transfers in	\$ -	\$ -	\$ 10,981	\$ -	\$ -	\$ -	\$ 66,069	\$ 2,000	\$ 79,050
Transfers out	<u>(95,269)</u>	<u>(10,981)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(46,068)</u>	<u>(152,318)</u>
Total other financing sources and uses	<u>(95,269)</u>	<u>(10,981)</u>	<u>10,981</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>66,069</u>	<u>(44,068)</u>	<u>(73,268)</u>
Net change in fund balance	(70,099)	(23,138)	24,837	(7,365)	(4,806)	(81,049)	94,180	(14,551)	(81,991)
Fund balance - beginning of year	<u>770,719</u>	<u>108,914</u>	<u>71,040</u>	<u>27,317</u>	<u>48,648</u>	<u>81,049</u>	<u>231,846</u>	<u>144,043</u>	<u>1,483,576</u>
Fund balance - end of year	<u>\$ 700,620</u>	<u>\$ 85,776</u>	<u>\$ 95,877</u>	<u>\$ 19,952</u>	<u>\$ 43,842</u>	<u>\$ -</u>	<u>\$ 326,026</u>	<u>\$ 129,492</u>	<u>\$ 1,401,585</u>

City of AuGres
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2006

Net change in fund balances - Total governmental funds \$ (81,991)

Total change in net assets reported for governmental activities in the statement of activities
is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those
assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(95,184)
Capital outlay	27,110

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue
in the funds.

State shared revenue	(7,397)
Special assessments	(27,007)
Financing lease	(75,000)

Expenses are recorded when incurred in the statement of activities

Accrued interest	3,430
Compensated absences	(10,450)

Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in
fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not
affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds
but reduces the liability in the statement of net assets.

Repayments of long-term debt	231,000
------------------------------	---------

Internal service funds are also included as governmental activities	<u>(24,596)</u>
---	-----------------

Change in net assets of governmental activities	<u>\$ (60,085)</u>
--	---------------------------

See Accompanying Notes to Financial Statements

City of AuGres
Proprietary Funds
Statement of Net Assets
June 30, 2006

	Enterprise Funds					Internal Service Fund
	Sewer	Water	Park	Nonmajor Boat Access and Harbor	Total	
Assets						
Current assets						
Cash and cash equivalents	\$ 39,486	\$ 64,967	\$ 32,400	\$ 6,620	\$ 143,473	\$ 55,931
Receivables						
Customers	24,969	24,700	-	-	49,669	-
Accrued interest and other	-	1,039	-	-	1,039	-
Due from other units of government	-	1,437	-	-	1,437	-
Total current assets	64,455	92,143	32,400	6,620	195,618	55,931
Noncurrent assets						
Restricted assets						
Investments	30,500	54,000	-	-	84,500	-
Capital assets, net	2,282,155	1,996,026	140,982	-	4,419,163	118,903
Total noncurrent assets	2,312,655	2,050,026	140,982	-	4,503,663	118,903
Total assets	2,377,110	2,142,169	173,382	6,620	4,699,281	174,834
Liabilities						
Current liabilities						
Accounts payable	4,168	3,684	2,958	405	11,215	135
Accrued and other liabilities	-	10,352	-	-	10,352	873
Due to other funds	2,707	38,240	1,842	26,559	69,348	9
Due to other units of government	1,250	-	-	-	1,250	-
Current portion of noncurrent liabilities	20,000	13,000	-	-	33,000	18,203
Total current liabilities	28,125	65,276	4,800	26,964	125,165	19,220

See Accompanying Notes to Financial Statements

City of AuGres
Proprietary Funds
Statement of Net Assets
June 30, 2006

	Enterprise Funds					
	Sewer	Water	Park	Nonmajor Boat Access and Harbor	Total	Internal Service Fund
Noncurrent liabilities						
Long-term debt net of current portion	\$ 30,000	\$ 795,000	\$ -	\$ -	\$ 825,000	\$ 59,737
Total liabilities	58,125	860,276	4,800	26,964	950,165	78,957
Net Assets						
Invested in capital assets, net of related debt	2,232,155	1,188,026	140,982	-	3,561,163	40,963
Unrestricted (Deficit)	86,830	93,867	27,600	(20,344)	187,953	54,914
Total net assets	\$ 2,318,985	\$ 1,281,893	\$ 168,582	\$ (20,344)	3,749,116	\$ 95,877
Some amounts reported for business-type activities in the statement of net assets are different because certain internal service fund assets and liabilities are reported with business-type activities					(19,187)	
Net assets of business-type activities					\$ 3,729,929	

See Accompanying Notes to Financial Statements

City of AuGres
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended June 30, 2006

	Enterprise Funds					
	Sewer	Water	Park	Nonmajor Boat Access and Harbor	Total	Internal Service Fund
Operating revenue						
Customer fees	\$ 202,605	\$ 219,365	\$ 64,171	\$ 31,021	\$ 517,162	\$ -
Billings to other funds	-	-	-	-	-	45,667
Rental income	-	18,900	-	-	18,900	-
Other revenue	437	9,885	950	460	11,732	198
Total operating revenue	203,042	248,150	65,121	31,481	547,794	45,865
Operating expenses						
Personnel services	99,315	80,800	67,285	18,415	265,815	12,281
Supplies	19,284	38,550	9,560	9,692	77,086	17,586
Contractual services	6,827	6,209	5,706	16,921	35,663	4,671
Utilities	29,034	14,029	18,690	766	62,519	-
Repairs and maintenance	30,786	36,272	1,717	-	68,775	804
Other expenses	11,834	9,332	47	3,676	24,889	1,347
Depreciation	87,662	71,316	17,383	-	176,361	40,169
Total operating expenses	284,742	256,508	120,388	49,470	711,108	76,858
Operating loss	(81,700)	(8,358)	(55,267)	(17,989)	(163,314)	(30,993)
Nonoperating revenue (expenses)						
Interest income	1,343	2,619	1,007	20	4,989	391
Interest expense	(2,998)	(41,867)	-	-	(44,865)	(3,788)
Total nonoperating revenues (expenses)	(1,655)	(39,248)	1,007	20	(39,876)	(3,397)

See Accompanying Notes to Financial Statements

City of AuGres
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended June 30, 2006

	Enterprise Funds					
	Sewer	Water	Park	Nonmajor Boat Access and Harbor	Total	Internal Service Fund
Loss before contributions and transfers out	\$ (83,355)	\$ (47,606)	\$ (54,260)	\$ (17,969)	\$ (203,190)	\$ (34,390)
Capital contributions	3,200	4,200	-	-	7,400	-
Transfers in	<u>8,268</u>	<u>-</u>	<u>40,000</u>	<u>25,000</u>	<u>73,268</u>	<u>-</u>
Change in net assets	(71,887)	(43,406)	(14,260)	7,031	(122,522)	(34,390)
Net assets (deficit) - beginning of year	<u>2,390,872</u>	<u>1,325,299</u>	<u>182,842</u>	<u>(27,375)</u>		<u>130,267</u>
Net assets (deficit) - end of year	<u>\$ 2,318,985</u>	<u>\$ 1,281,893</u>	<u>\$ 168,582</u>	<u>\$ (20,344)</u>		<u>\$ 95,877</u>
Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of the internal service fund is reported with business-type activities						<u>(9,794)</u>
Change in net assets of business-type activities						<u>\$ (132,316)</u>

See Accompanying Notes to Financial Statements

City of AuGres
Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2006

	Business-type Activities - Enterprise Funds					Internal Service Fund
	Sewer	Water	Park	Boat Access and Harbor	Total	Equipment
Cash flows from operating activities						
Receipts from customers	\$ 203,571	\$ 249,927	\$ 65,121	\$ 31,481	\$ 550,100	\$ 198
Receipts from interfund users	-	-	-	-	-	45,667
Payments to other funds	(8,635)	14,464	(2,958)	(2,164)	707	(757)
Payments to suppliers	(92,049)	(95,634)	(35,036)	(30,930)	(253,649)	(24,569)
Payments to employees	(99,315)	(80,800)	(67,285)	(18,415)	(265,815)	(12,281)
Payments for interfund services used	(6,614)	(7,821)	-	-	(14,435)	-
Net cash provided (used) by operating activities	(3,042)	80,136	(40,158)	(20,028)	16,908	8,258
Cash flows from noncapital financing activities						
Transfer from other funds	8,268	-	40,000	25,000	73,268	-
Cash flows from capital and related financing activities						
Capital contributions	3,200	4,200	-	-	7,400	-
Principal and interest paid on long-term debt	(22,998)	(53,867)	-	-	(76,865)	(21,197)
Net cash used by capital and related financing activities	(19,798)	(49,667)	-	-	(69,465)	(21,197)
Cash flows from investing activities						
Interest received	1,343	1,580	1,007	20	3,950	391
Net increase (decrease) in cash and cash equivalents	(13,229)	32,049	849	4,992	24,661	(12,548)
Cash and cash equivalents - beginning of year	52,715	32,918	31,551	1,628	118,812	68,479
Cash and cash equivalents - end of year	\$ 39,486	\$ 64,967	\$ 32,400	\$ 6,620	\$ 143,473	\$ 55,931

See Accompanying Notes to Financial Statements

City of AuGres
Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2006

	Business-type Activities - Enterprise Funds					Internal Service Fund
	Sewer	Water	Park	Boat Access and Harbor	Total	Equipment
Reconciliation of operating loss to net cash provided (used) by operating activities						
Operating loss	\$ (81,700)	\$ (8,358)	\$ (55,267)	\$ (17,989)	\$ (163,314)	\$ (30,993)
Adjustments to reconcile operating income to net cash from operating activities						
Depreciation and amortization expense	87,662	71,316	17,383	-	176,361	40,169
Changes in assets and liabilities						
Receivables (net)	529	1,691	-	-	2,220	-
Due from other units of government	-	86	-	-	86	-
Prepaid items	-	-	-	125	125	-
Accounts payable	(398)	1,091	-	-	693	35
Accrued and other liabilities	-	(154)	684	(2,164)	(1,634)	(196)
Due to other funds	(8,635)	14,464	-	-	5,829	(757)
Due to component unit	-	-	(2,958)	-	(2,958)	-
Due to other units of government	(500)	-	-	-	(500)	-
 Net cash provided (used) by operating activities	 <u>\$ (3,042)</u>	 <u>\$ 80,136</u>	 <u>\$ (40,158)</u>	 <u>\$ (20,028)</u>	 <u>\$ 16,908</u>	 <u>\$ 8,258</u>

See Accompanying Notes to Financial Statements

City of AuGres
Fiduciary Funds
Statement of Net Assets
June 30, 2006

	<u>Pension and Other Employee Benefits Trust Fund</u>	
	<u>Defined Contribution Plan</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$ -	\$ 4,777
Investments	<u>52,621</u>	<u>-</u>
Total assets	<u>52,621</u>	<u>\$ 4,777</u>
Liabilities		
Accrued and other liabilities	-	\$ 668
Due to other units of government	<u>-</u>	<u>4,109</u>
Total liabilities	<u>-</u>	<u>\$ 4,777</u>
Net Assets		
Held in trust for pension benefits and other purposes	<u>\$ 52,621</u>	

See Accompanying Notes to Financial Statements

City of AuGres
Fiduciary Funds
Statement of Changes in Net Assets
For the Year Ended June 30, 2006

	Pension and Other Employee Benefits Trust Fund
	Defined Contribution Plan
Additions	
Contributions	
Employer	\$ 8,407
Plan members	<u>687</u>
Total contributions	<u>9,094</u>
Investment earnings	
Interest	<u>4,032</u>
Change in net assets	13,126
Net assets - beginning of year	<u>39,495</u>
Net assets - end of year	<u><u>\$ 52,621</u></u>

See Accompanying Notes to Financial Statements

City of AuGres
Notes to Financial Statements
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

City of AuGres is governed by an elected five-member Board. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description).

Blended Component Units – A blended component unit is a legally separate entity from the City, but is so intertwined with the City that it is in substance the same as the City. It is reported as part of the City and blended into the appropriate funds.

Building Authority – The City of Au Gres' Building Authority is governed by a three-member board appointed by the City Council. Although it is legally separate from the City, the Building Authority is reported as if it were part of the primary government because its sole purpose is to finance and construct the City's public buildings.

Discretely Presented Component Units – The component unit column in the entity wide financial statements include the financial data of the City's Tax Increment Financing Authority. This unit is reported in a separate column to emphasize that it is legally separate from the City. The members of the Governing Board of the Tax Increment Financing Authority are appointed by the City Council. The budgets and expenditures of the Tax Increment Financing Authority must be approved by the City Council. The City also has the ability to significantly influence operations of the Tax Increment Financing Authority. The Tax Increment Financing Authority does not issue any

other form of financial statements except as contained in the City of AuGres' annual financial statements.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non fiduciary activities of the primary government and its component units. *Government activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

City of AuGres
Notes to Financial Statements
June 30, 2006

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the maintenance and improvement activities for streets designated as "major" within the City. Funding is primarily through state shared gas and weight taxes.

The Local Street Fund accounts for maintenance and improvement activities for streets designated as "local" within the City. Funding is primarily through state shared gas and weight taxes.

The Police Fund records revenues and expenses related to public safety. Funding is primarily through property taxes.

The 1998 Improvement Debt Service Fund records accounts for special assessments to City residents and payments made to cover special assessment bonds.

The Building Authority Debt Service Fund records revenue and the payment of interest, principal and other expenditures on long term debt.

The Capital Project Fund records the revenue and expense related to the capital project.

The Boat Access and Harbor Fund records accounts for a lease agreement with the State of Michigan to operate the Federal Harbor of Refuge, State Boat Docks and the State Boat Launch.

The government reports the following major proprietary funds:

City of AuGres
Notes to Financial Statements
June 30, 2006

The Sewer Fund accounts for the activities of the sewage collection system.

The Water Fund accounts for the activities of the water distribution system.

The Park Fund accounts for the costs of maintaining a park and recreation program.

Additionally, the government reports the following:

The nonmajor special revenue funds account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative requirements.

The debt service funds account for the accumulation of resources for, and payment of governmental activities principal, interest and related costs.

The Internal Service Fund accounts for major machinery and equipment purchases and maintenance provided to other departments of the government on a cost reimbursement basis.

The Pension and Employee Benefit Trust Fund accounts for the activities of the defined contribution pension plan which accumulates resources for pension payments to qualified employees.

The Agency Fund accounts for property tax and other deposits collected on behalf of other units and individuals.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance

of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer and water funds and the internal service funds are charges to customers for sales and services. The government also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for sewer and water funds and the internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

City of AuGres
Notes to Financial Statements
June 30, 2006

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, liabilities, and net assets or equity

Deposits and investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value based on quoted market price. Certificate of deposits are stated at cost which approximates fair value.

Receivables and payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangement outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

The 2005 taxable valuation of the government totaled \$ 35,398,405, on which ad valorem taxes consisted of 12.4445 mills for operating purposes, 3.0613 for police protection services and .3554 for debt service. This resulted in \$ 268,708 for operating expenses, \$ 65,819 for police protection and \$ 9,642 for debt service, exclusive of any Michigan Tax Tribunal or Board of Review adjustments.

Restricted assets – Certain revenue bonds of the Enterprise Funds require amounts to be set aside for a bond reserve. These amounts have been classified as restricted investments.

Capital assets – Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Land improvements	10 to 20 years
Buildings	40 to 60 years
Building improvements	15 to 30 years
Water and sewer lines	50 to 75 years
Roads	25 years
Other infrastructure	20 to 40 years
Vehicles	3 to 5 years
Office equipment	5 to 7 years
Computer equipment	3 to 7 years
Heavy duty equipment	20 to 40 years

Compensated absences – Full time employees receive 10 sick days for each full year of service and can carry forward 75 hours each year. The excess of 75 hours will be paid one-half at each anniversary

City of AuGres
Notes to Financial Statements
June 30, 2006

date. The City will also pay one-half of accumulated sick leave upon retirement or death. Other reasons for termination will not be reimbursed for accumulated sick leave. There is no contractual provision for payment of unused vacation. They may be used for vacation only. All sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only for terminations as of year end.

Long-term obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purposes. Designations of fund balance represent tentative management plans that are subject to change.

Comparative data

Comparative data is not included in the government's financial statements.

Upcoming Accounting and Reporting Change

The Government Accounting Standards Board has issued Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits other than Pension*. The new pronouncement provides guidance for governments in recognizing the cost of retiree health care. The new rules will cause government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 20, 2010.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information

The government is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The City is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

City of AuGres
Notes to Financial Statements
June 30, 2006

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The City Manager is authorized to transfer budgeted amounts between line items within an activity; however, any revisions that alter the total expenditures of an activity must be approved by the City Council.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

Deficit fund equity

The City has adopted a Budget Deficit in the Building Authority Fund.

The City has accumulated a net assets deficit in the Boat Access and Harbor Fund. The deficit is the result of start up costs and will be recovered through fees.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year end the government's deposits and investments were reported in the basic financial statements in the following categories:

	Cash and Cash Equivalents	Investments	Restricted Cash and Cash Equivalents	Restricted Investments
Governmental activities	\$ 1,343,495	\$ 22,000	\$ -	\$ -
Business-type activities	143,473	-	-	84,500
Total primary government	1,486,968	22,000	-	84,500
Fiduciary funds	4,777	52,621	-	-
Component unit	49,394	-	-	-
Total	<u>\$ 1,541,139</u>	<u>\$ 74,621</u>	<u>\$ -</u>	<u>\$ 84,500</u>

The breakdown between deposits and investments is as follows:

	Primary Government	Fiduciary Funds	Component Unit
Bank deposits (checking and savings accounts, money markets and certificates of deposit)	\$ 1,571,368	\$ 4,777	\$ 49,394
Investments in securities, mutual funds and similar vehicles	22,000	52,621	-
Petty cash and cash on hand	<u>100</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,593,468</u>	<u>\$ 57,398</u>	<u>\$ 49,394</u>

As of year end, the government had the following investments:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>
IBM	\$ 13,350	Not rated
Exxon Mobil	8,650	Not rated
Mutual funds	<u>52,621</u>	Not rated
	<u>\$ 74,621</u>	

The stock was donated to the City to help cover costs of the Library. The stock can be sold or used to generate investment income. There were no restrictions on its use other than to be used for the Library. The stock certificates are held by the City.

City of AuGres
Notes to Financial Statements
June 30, 2006

Interest rate risk – The government does not have a formal investment policy to manage its exposure to fair value losses from changes in interest rates.

Credit risk – State statutes and the government's investment policy authorize the government to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The pension trust funds are also authorized by Michigan Public Act 485 of 1996 (as amended) to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

Concentration of credit risk – The government has no policy that would limit the amount that may be issued in any one issuer.

Custodial credit risk - deposits – In the case of deposits, this is the risk that in the event of bank failure, the government's deposits may not be returned to it. The government's deposit policy limits use to two (2) banks. The government does not have a policy for custodial credit risk. As of year end, \$ 1,533,431 was exposed to custodial credit risk

because it was uninsured and uncollateralized.

NOTE 4 - RECEIVABLES AND DEFERRED REVENUE

The only receivables not expected to be collected within one year are as follows:

	Due After One Year	Fund
Primary government		
Special assessments	\$ 84,883	1998 Improvements

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>
Primary government	
State shared revenue	\$ 17,155
Special assessments	<u>101,844</u>
	<u>\$ 118,999</u>

NOTE 5 - CAPITAL ASSETS

Capital assets activity of the primary government for the current year was as follows:

City of AuGres
Notes to Financial Statements
June 30, 2006

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 393,450	\$ -	\$ -	\$ 393,450
Capital assets being depreciated				
Land improvements	276,905	-	-	276,905
Infrastructure	209,970	-	-	209,970
Buildings, additions and improvements	1,274,716	23,921	-	1,298,637
Machinery and equipment	697,675	3,189	-	700,864
Total capital assets being depreciated	2,459,266	27,110	-	2,486,376
Less accumulated depreciation for				
Land improvements	54,384	18,461	-	72,845
Infrastructure	8,222	8,398	-	16,620
Buildings, additions and improvements	79,054	37,604	-	116,658
Machinery and equipment	342,948	70,890	-	413,838
Total accumulated depreciation	484,608	135,353	-	619,961
Net capital assets being depreciated	1,974,658	(108,243)	-	1,866,415
Governmental activities capital assets, net	\$ 2,368,108	\$ (108,243)	\$ -	\$ 2,259,865
Business-type activities				
Capital assets not being depreciated				
Land	\$ 16,163	\$ -	\$ -	\$ 16,163
Capital assets being depreciated				
Land improvements	305,782	-	-	305,782
Buildings, additions and improvements	32,088	-	-	32,088
Machinery and equipment	56,118	-	-	56,118
Vehicles	21,103	-	-	21,103
Water system	2,974,746	-	-	2,974,746
Sewer system	3,659,410	-	-	3,659,410
Total capital assets being depreciated	7,049,247	-	-	7,049,247
Less accumulated depreciation for				
Land improvements	160,233	15,289	-	175,522
Buildings, additions and improvements	27,352	-	-	27,352
Machinery and equipment	46,207	1,508	-	47,715
Vehicles	17,104	3,410	-	20,514
Water system	911,403	69,316	-	980,719
Sewer system	1,307,587	86,838	-	1,394,425
Total accumulated depreciation	2,469,886	176,361	-	2,646,247
Net capital assets being depreciated	4,579,361	(176,361)	-	4,403,000
Business-type capital assets, net	\$ 4,595,524	\$ (176,361)	\$ -	\$ 4,419,163

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities	
General government	\$ 21,046
Public safety	8,039
Public works	31,986
Recreation and culture	34,113
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	40,169
Total governmental activities	135,353
Business-type activities	
Sewer	87,662
Water	71,316
Park	17,383
Total business-type activities	176,361
Total primary government	\$ 311,714

NOTE 6 - INTERFUND RECEIVABLES, PAYABLE, AND TRANSFERS

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due from/to other funds		
General	Library	\$ 327
General	Park	1,842
General	Sewer	2,707
General	Water	38,240
General	Boat Access and Harbor	26,559
General	Equipment	9
Local Street	Major Street	901
		\$ 70,585

City of AuGres
Notes to Financial Statements
June 30, 2006

The outstanding balances between funds result mainly from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

The composition of amount due to/from primary government and component unit are as follows:

Receivable Fund	Payable Fund	Amount
Due from/to other funds		
General	TIFA	\$ 550
TIFA	1998 Building Authority	814
		<u>\$ 1,364</u>

The details for interfund transfers are as follows:

Funds Transferred From	Funds Transferred To	Amount
General	Capital Project	\$ 20,000
General	Park	40,000
General	Boat Access and Harbor	25,000
General	Sewer	8,268
Major Street	Local Street	10,982
General	General Obligation	2,000
Library Construction	Capital Project	<u>46,068</u>
		<u>\$ 152,318</u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs. Annually, Major Street dollars are transferred to Local Street for local street projects. In addition, library construction funds were transferred to the capital project fund.

NOTE 7 - LEASE

Capital lease

The City has entered into a lease agreement as lessee for financing the purchase of a street sweeper. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease payments are as follows:

<u>Year ending December 31,</u>	
2007	\$ 19,019
2008	19,885
2009	20,791
2010	<u>21,738</u>
Total minimum lease payments	81,433
Less amount representing interest	<u>3,493</u>
Present value of minimum lease payments	<u>\$ 77,940</u>
Asset	
Machinery and equipment	\$ 165,000
Less accumulated depreciation	<u>55,000</u>
Total	<u>\$ 110,000</u>

City of AuGres
Notes to Financial Statements
June 30, 2006

NOTE 8 - LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Installment purchase agreements are also general obligations of the government. Special Assessment bonds provide for capital improvements that benefit specific parties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the City) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Other long-term obligations include compensated absences. Compensated absences are typically liquidated with funds from the General Fund.

Long-term obligation activity is summarized as follows:

	Amount of Issue	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities									
Bonds and notes payable									
General obligation bonds									
1972 Sewage disposal	\$ 150,000	1/10/10	5.000%	\$6,000	\$ 30,000	\$ -	\$ 6,000	\$ 24,000	\$ 6,000
1996	725,000	6/1/11	5.500-5.650%	\$50,000 - \$75,000	320,000	-	45,000	275,000	50,000
Special assessment obligations									
East Saginaw	91,000	10/1/07	5.400%	\$6,000	18,000	-	6,000	12,000	6,000
Ashdale	41,000	10/1/07	4.950%	\$4,000 - \$5,000	13,000	-	4,000	9,000	4,000
1996	705,000	6/1/11	5.500-5.600%	\$50,000 - \$55,000	300,000	-	45,000	255,000	50,000
Building authority bonds									
1998A	275,000	7/1/06	4.700-4.800%	\$25,000 - \$50,000	75,000	-	75,000	-	-
1998B	675,000	9/1/13	4.350-4.700%	\$50,000 - \$75,000	<u>525,000</u>	<u>-</u>	<u>50,000</u>	<u>475,000</u>	<u>50,000</u>
Total bonds payable					1,281,000	-	231,000	1,050,000	166,000
Capital leases									
Sweeper	112,000	5/12/10	4.480%	\$18,203 - \$20,806	95,349		17,409	77,940	18,203
Compensated absences					<u>22,310</u>	<u>10,450</u>	<u>-</u>	<u>32,760</u>	<u>-</u>
Total governmental activities					<u>\$ 1,398,659</u>	<u>\$ 10,450</u>	<u>\$ 248,409</u>	<u>\$ 1,160,700</u>	<u>\$ 184,203</u>
Business-type activities									
Bonds and notes payable									
Revenue bonds									
1995 Water	\$ 913,000	4/1/35	5.125%	\$12,000 - \$51,000	\$ 820,000	\$ -	\$ 12,000	\$ 808,000	\$ 13,000
1974 Sewer	450,000	1/1/09	5.000%	\$10,000 - \$20,000	<u>70,000</u>	<u>-</u>	<u>20,000</u>	<u>50,000</u>	<u>20,000</u>
Total business-type activities					<u>\$ 890,000</u>	<u>\$ -</u>	<u>\$ 32,000</u>	<u>\$ 858,000</u>	<u>\$ 33,000</u>

City of AuGres
Notes to Financial Statements
June 30, 2006

Annual debt service requirements to maturity for the above obligations are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 166,000	\$ 53,365	\$ 33,000	\$ 43,660
2008	167,000	44,818	33,000	41,994
2009	156,000	36,358	24,000	40,328
2010	156,000	28,333	15,000	39,360
2011	180,000	20,083	16,000	38,591
2012-2016	225,000	21,000	90,000	180,144
2017-2021	-	-	116,000	154,519
2022-2026	-	-	149,000	121,565
2027-2031	-	-	191,000	79,233
2032-2036	-	-	191,000	25,061
	<u>\$ 1,050,000</u>	<u>\$ 203,957</u>	<u>\$ 858,000</u>	<u>\$ 764,455</u>

NOTE 9 - JOINTLY GOVERNED ORGANIZATIONS

Au Gres – Sims Fire Authority

The City of Au Gres is a member of an inter-governmental agreement to operate a joint fire authority with Sims, Au Gres, and Whitney Townships. The participating communities provide annual funding for its operations. During the current year, the City's portion was fulfilled through property taxes of \$ 20,649 for operations. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the year ended March 31, 2006 can be obtained from the administrative offices at: 201 N. Court, Au Gres, Michigan 48703.

Au Gres – Sims Police Board

The City of Au Gres is a member of a cooperation agreement with Sims Township. The participating communities provide annual funding for its operations. During the current year, the City contributed \$ 76,439 for its operations. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the year ended June 30, 2006 can be obtained from the administrative offices at: P.O. Box 121, Au Gres, Michigan 48703.

NOTE 10 - RISK MANAGEMENT

The government is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The government has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 11 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Defined benefit pension plan

Plan description – The government participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the government. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 447 N. Canal Rd., Lansing, Michigan 48917.

City of AuGres
Notes to Financial Statements
June 30, 2006

Funding policy – The obligation to contribute to and maintain the system for these employees was established by negotiation with the government's competitive bargaining units and requires a contribution from the employees of 6 percent of gross wages for General, and Police and Fire employees.

Annual pension costs – For year ended 2005, the government's annual pension cost of \$ 74,334 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the actual age cost method. Significant actuarial assumptions used include: 1) a 8.0% investment rate of return; 2) projected salary increases of 4.5% percent per year; and 3) 3.5% percent per year cost of living adjustments. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31, 2005 follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Annual pension cost	\$ 68,000	\$ 72,000	\$ 60,000
Percentage of APC contributed	100%	100%	100%
Actuarial value of assets	993,358	904,245	821,795
Actuarial accrued liabilities	1,651,985	1,637,360	1,405,879
Unfunded AAL	658,627	733,115	584,084
Funded ratio	60.0%	55.0%	58.0%
Covered payroll	455,140	455,140	399,719
UAAL as a percentage of covered payroll	145%	161%	146%

Defined Contribution Pension Plan

The City of Au Gres Public Employees Retirement System (PERS) is

a single employer PERS that administers the City's defined contribution pension plan for its employees. The PERS prepares and distributes separate financial statements as required by state statute but its financial statements are also included as an expendable trust fund of the City of Au Gres. The City of Au Gres is the only nonemployee contributor to the pension plan. Certain employees are covered by the defined contribution plan. As of June 30, 2006, the pension plan's membership was three employees.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. As established by state statute, all full-time municipal employees of the City must participate in the pension plan from the date they are hired. The City is required to contribute an amount equal to 6.0% of the employee's gross earnings.

NOTE 12 - CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

City of AuGres
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes				
Property taxes	\$ 270,000	\$ 270,000	\$ 265,130	\$ (4,870)
Other taxes	108	108	108	-
Penalties and interest	3,000	3,800	3,951	151
Administration fee	18,000	18,000	18,105	105
Licenses and permits	3,000	6,400	8,684	2,284
State revenue sharing	100,000	100,000	90,771	(9,229)
Charges for services	44,100	44,100	40,496	(3,604)
Interest income	8,000	20,000	25,477	5,477
Rental income	486	486	-	(486)
Other revenue	1,000	1,000	3,267	2,267
Total revenues	<u>447,694</u>	<u>463,894</u>	<u>455,989</u>	<u>(7,905)</u>
Expenditures				
General government				
City Council	12,300	12,300	5,307	(6,993)
Manager	31,800	31,800	35,144	3,344
Clerk	67,200	68,600	60,655	(7,945)
Board of review	2,400	2,400	1,920	(480)
Assessor	27,500	27,500	28,682	1,182
Elections	6,600	6,600	1,727	(4,873)
Buildings and grounds	28,500	33,500	25,010	(8,490)
Attorney	7,000	13,000	4,869	(8,131)
Cemetery	5,000	5,000	2,147	(2,853)
Total general government	<u>188,300</u>	<u>200,700</u>	<u>165,461</u>	<u>(35,239)</u>
Public safety				
Police	<u>8,500</u>	<u>8,500</u>	<u>8,217</u>	<u>(283)</u>

City of AuGres
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2006

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Public works				
Department of public works	\$ 39,800	\$ 41,500	\$ 28,482	\$ (13,018)
Drains	300	300	289	(11)
Street lighting	33,000	33,000	31,143	(1,857)
Sanitary land fill	<u>58,000</u>	<u>58,000</u>	<u>55,728</u>	<u>(2,272)</u>
Total public works	<u>131,100</u>	<u>132,800</u>	<u>115,642</u>	<u>(17,158)</u>
Recreation and culture				
Parks and recreation	14,000	14,000	5,287	(8,713)
Library	<u>500</u>	<u>500</u>	<u>500</u>	<u>-</u>
Total recreation and culture	<u>14,500</u>	<u>14,500</u>	<u>5,787</u>	<u>(8,713)</u>
Other functions				
Insurance and bonds	24,000	18,000	10,181	(7,819)
Unallocated employee fringe benefits	<u>99,800</u>	<u>101,700</u>	<u>59,146</u>	<u>(42,554)</u>
Total other functions	<u>123,800</u>	<u>119,700</u>	<u>69,327</u>	<u>(50,373)</u>
Capital outlay	<u>40,000</u>	<u>40,000</u>	<u>51,385</u>	<u>11,385</u>
Debt service				
Principal retirement	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>	<u>-</u>
Transfers out	<u>71,500</u>	<u>136,500</u>	<u>95,269</u>	<u>(41,231)</u>
Total expenditures	<u>592,700</u>	<u>667,700</u>	<u>526,088</u>	<u>(141,612)</u>
Excess (deficiency) of revenues over expenditures	(145,006)	(203,806)	(70,099)	133,707
Fund balance - beginning of year	<u>770,719</u>	<u>770,719</u>	<u>770,719</u>	<u>-</u>
Fund balance - end of year	<u>\$ 625,713</u>	<u>\$ 566,913</u>	<u>\$ 700,620</u>	<u>\$ 133,707</u>

City of AuGres
Required Supplemental Information
Budgetary Comparison Schedule
Major Street Fund
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Other state grants	\$ 52,000	\$ 52,000	\$ 59,268	\$ 7,268
Local contributions	2,000	2,000	2,000	-
Charges for services	7,400	12,000	11,132	(868)
Interest income	800	1,300	1,428	128
Other revenue	-	-	2	2
	<u>62,200</u>	<u>67,300</u>	<u>73,830</u>	<u>6,530</u>
Total revenues				
Expenditures				
Current				
Public works	49,300	56,050	39,461	(16,589)
Capital outlay	36,600	44,600	39,526	(5,074)
Debt service				
Principal retirement	-	-	7,000	7,000
Transfers out	18,700	18,700	10,981	(7,719)
	<u>104,600</u>	<u>119,350</u>	<u>96,968</u>	<u>(22,382)</u>
Total expenditures				
Excess (deficiency) of revenues over expenditures	(42,400)	(52,050)	(23,138)	28,912
Fund balance - beginning of year	<u>108,914</u>	<u>108,914</u>	<u>108,914</u>	<u>-</u>
Fund balance - end of year	<u>\$ 66,514</u>	<u>\$ 56,864</u>	<u>\$ 85,776</u>	<u>\$ 28,912</u>

City of AuGres
Required Supplemental Information
Budgetary Comparison Schedule
Local Street Fund
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Other state grants	\$ 32,000	\$ 32,000	\$ 35,524	\$ 3,524
Interest income	1,000	1,000	1,206	206
Transfers in	-	11,000	10,981	(19)
	<u>33,000</u>	<u>44,000</u>	<u>47,711</u>	<u>3,711</u>
Expenditures				
Current				
Public works	36,300	28,800	14,856	(13,944)
Capital outlay	25,500	25,500	1,018	(24,482)
Debt service				
Principal retirement	-	-	7,000	7,000
Transfers out	<u>7,700</u>	<u>7,700</u>	<u>-</u>	<u>(7,700)</u>
	<u>69,500</u>	<u>62,000</u>	<u>22,874</u>	<u>(39,126)</u>
Excess (deficiency) of revenues over expenditures	(36,500)	(18,000)	24,837	42,837
Fund balance - beginning of year	<u>71,040</u>	<u>71,040</u>	<u>71,040</u>	<u>-</u>
Fund balance - end of year	<u>\$ 34,540</u>	<u>\$ 53,040</u>	<u>\$ 95,877</u>	<u>\$ 42,837</u>

City of AuGres
Required Supplemental Information
Budgetary Comparison Schedule
Police Fund
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes	\$ 60,000	\$ 65,900	\$ 65,819	\$ (81)
Other state grants	2,200	2,200	2,360	160
Interest income	600	600	762	162
Other revenue	500	500	133	(367)
Transfers in	11,700	-	-	-
Total revenues	75,000	69,200	69,074	(126)
Expenditures				
Current				
Public safety	75,000	77,000	76,439	(561)
Excess (deficiency) of revenues over expenditures	-	(7,800)	(7,365)	435
Fund balance - beginning of year	71,040	27,317	27,317	-
Fund balance - end of year	\$ 71,040	\$ 19,517	\$ 19,952	\$ 435

City of AuGres
Required Supplemental Information
Budgetary Comparison Schedule
Building Authority Fund
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Interest income	\$ 50	\$ 50	\$ 233	\$ 183
Transfers in	28,600	-	-	-
Total revenues	28,650	50	233	183
Expenditures				
Debt service				
Principal retirement	25,000	78,000	75,000	(3,000)
Interest and fiscal charges	3,550	6,350	6,282	(68)
Total expenditures	28,550	84,350	81,282	(3,068)
Excess (deficiency) of revenues over expenditures	100	(84,300)	(81,049)	3,251
Fund balance - beginning of year	81,049	81,049	81,049	-
Fund balance (deficit) - end of year	\$ 81,149	\$ (3,251)	\$ -	\$ 3,251

City of AuGres
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006

	Special Revenue Fund	Debt Service Funds			Capital Projects Funds	
		Special Assessment Bonds		General Obligation Sewer Bonds		Total Nonmajor Governmental Funds
	Library	E. Saginaw Street	Ashdale		Library Building	
Assets						
Cash and cash equivalents	\$ 46,220	\$ 14,395	\$ 2,695	\$ 4,747	\$ 39,733	\$ 107,790
Investments	-	-	-	-	22,000	22,000
Receivables						
Special assessments	-	11,580	5,810	-	-	17,390
Total assets	<u>\$ 46,220</u>	<u>\$ 25,975</u>	<u>\$ 8,505</u>	<u>\$ 4,747</u>	<u>\$ 61,733</u>	<u>\$ 147,180</u>
Liabilities						
Accounts payable	\$ 399	\$ -	\$ -	\$ -	\$ -	\$ 399
Due to other funds	327	-	-	-	-	327
Deferred revenue	-	11,152	5,810	-	-	16,962
Total liabilities	<u>726</u>	<u>11,152</u>	<u>5,810</u>	<u>-</u>	<u>-</u>	<u>17,688</u>
Fund Balances						
Reserved for:						
Debt service	-	14,823	2,695	4,747	-	22,265
Unreserved						
Undesignated	<u>45,494</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>61,733</u>	<u>107,227</u>
Total fund balances	<u>45,494</u>	<u>14,823</u>	<u>2,695</u>	<u>4,747</u>	<u>61,733</u>	<u>129,492</u>
Total liabilities and fund balances	<u>\$ 46,220</u>	<u>\$ 25,975</u>	<u>\$ 8,505</u>	<u>\$ 4,747</u>	<u>\$ 61,733</u>	<u>\$ 147,180</u>

City of AuGres
Other Supplemental Information
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2006

	Special Revenue Fund	Debt Service Fund		General Obligation Sewer Bonds	Capital Projects Funds		Total Nonmajor Governmental Funds
	Library	Special Assessment E. Saginaw Street	Bonds Ashdale		Library Building	Library Construction	
Revenues							
Taxes	\$ 47,680	\$ -	\$ -	\$ 7,642	\$ -	\$ -	\$ 55,322
Interest income	140	56	15	250	1,292	139	1,892
Other revenue	-	7,864	3,424	-	8,076	-	19,364
Total revenues	47,820	7,920	3,439	7,892	9,368	139	76,578
Expenditures							
Current							
Recreation and culture	27,856	-	-	-	-	-	27,856
Debt service							
Principal retirement	-	6,000	4,000	6,000	-	-	16,000
Interest and fiscal charges	-	810	895	1,500	-	-	3,205
Total expenditures	27,856	6,810	4,895	7,500	-	-	47,061
Excess (deficiency) of revenues over expenditures	19,964	1,110	(1,456)	392	9,368	139	29,517
Other financing uses							
Transfers in	-	-	-	2,000	-	-	2,000
Transfers out	-	-	-	-	-	(46,068)	(46,068)
Total other financing sources and uses	-	-	-	2,000	-	(46,068)	(44,068)
Net change in fund balance	19,964	1,110	(1,456)	2,392	9,368	(45,929)	(14,551)
Fund balance - beginning of year	25,530	13,713	4,151	2,355	52,365	45,929	144,043
Fund balance - end of year	\$ 45,494	\$ 14,823	\$ 2,695	\$ 4,747	\$ 61,733	\$ -	\$ 129,492

City of AuGres
Other Supplemental Information
Component Unit - Tax Increment Financing Authority
Budgetary Comparison Schedule
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes	\$ 337,300	\$ 337,300	\$ 318,577	\$ (18,723)
Interest income	2,000	2,000	1,009	(991)
Total revenues	339,300	339,300	319,586	(19,714)
Expenditures				
Current				
Community and economic development	87,400	87,400	87,139	(261)
Capital outlay	77,600	77,600	44,912	(32,688)
Debt service				
Principal retirement	81,000	81,000	80,800	(200)
Interest and fiscal charges	58,596	58,596	58,596	-
Total expenditures	304,596	304,596	271,447	(33,149)
Excess of revenues over expenditures	34,704	34,704	48,139	13,435
Fund balance - beginning of year	17,548	17,548	17,548	-
Fund balance - end of year	\$ 52,252	\$ 52,252	\$ 65,687	\$ 13,435

City of AuGres
Other Supplemental Information
Schedule of Indebtedness
June 30, 2006

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Principal	Interest	Total
Governmental Activities						
General Obligation Sewage Disposal System Bonds						
Date of issue 1/28/72;						
amount of issue \$ 150,000	5.000%	1/1/07-10	\$ 6,000	\$ 24,000	\$ 3,000	\$ 27,000
General Obligation Limited Tax Bonds, Series 1996						
Date of issue 9/1/96;						
amount of issue \$ 725,000	5.550%	6/1/2007	50,000	50,000	15,388	65,388
	5.550%	6/1/2008	50,000	50,000	12,613	62,613
	5.600%	6/1/2009	50,000	50,000	9,838	59,838
	5.600%	6/1/2010	50,000	50,000	7,038	57,038
	5.650%	6/1/2011	75,000	75,000	4,238	79,238
				275,000	49,115	324,115
Special Assessment Bonds - East Saginaw Street						
Date of issue 9/1/96;						
amount of issue \$ 91,000	5.400%	10/1/2006	6,000	6,000	486	6,486
		10/1/2007	6,000	6,000	162	6,162
				12,000	648	12,648
Special Assessment Bond Series 1998 - Ashdale						
Date of issue 10/1/98;						
amount of issue \$ 41,000	4.950%	10/1/2006	4,000	4,000	446	4,446
		10/1/2007	5,000	5,000	248	5,248
				9,000	694	9,694
Special Assessment Bonds Series 1996						
Date of issue 9/1/96;						
amount of issue \$ 705,000	5.500%	6/1/2007	50,000	50,000	14,258	64,258
	5.550%	6/1/2008	50,000	50,000	11,483	61,483
	5.550%	6/1/2009	50,000	50,000	8,708	58,708
	5.600%	6/1/2010	50,000	50,000	5,908	55,908
	5.600%	6/1/2011	55,000	55,000	3,108	58,108
				255,000	43,465	298,465

City of AuGres
Other Supplemental Information
Schedule of Indebtedness
June 30, 2006

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Principal	Interest	Total
Governmental Activities						
Building Authority Revenue Bonds 1999						
Date of issue 3/1/99;						
amount of issue \$ 675,000	4.350%	9/1/2007	\$ 50,000	\$ 50,000	\$ 21,588	\$ 71,588
	4.400%	9/1/2008	50,000	50,000	19,413	69,413
	4.450%	9/1/2009	50,000	50,000	17,213	67,213
	4.500%	9/1/2010	50,000	50,000	14,988	64,988
	4.550%	9/1/2011	50,000	50,000	12,738	62,738
	4.600%	9/1/2012	75,000	75,000	10,463	85,463
	4.650%	9/1/2013	75,000	75,000	7,013	82,013
	4.700%	9/1/2014	75,000	75,000	3,525	78,525
				<u>475,000</u>	<u>106,941</u>	<u>581,941</u>
2004 Lease Purchase Agreement - Street Sweeper						
Date of agreement - June 8, 2004						
amount of lease payable - \$ 112,000						
quarterly payments of \$ 5,348	4.480%	2006-07	18,203	18,203	816	19,019
		2007-08	19,032	19,032	853	19,885
		2008-09	19,899	19,899	892	20,791
		2009-10	20,806	20,806	932	21,738
				<u>77,940</u>	<u>3,493</u>	<u>81,433</u>
Compensated Absences			32,760	<u>32,760</u>	<u>-</u>	<u>32,760</u>
Total governmental activities				<u>1,160,700</u>	<u>207,356</u>	<u>1,368,056</u>

City of AuGres
Other Supplemental Information
Schedule of Indebtedness
June 30, 2006

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Principal	Interest	Total
Business-type Activities						
Water Revenue Bond						
Date of issue 5/24/95;						
amount of issue \$ 913,000	5.125%	4/1/07-08	\$ 13,000	\$ 26,000	\$ 82,154	\$ 108,154
		4/1/2009	14,000	14,000	40,078	54,078
		4/1/2010	15,000	15,000	39,360	54,360
		4/1/2011	16,000	16,000	38,181	54,181
		4/1/2012	16,000	16,000	38,181	54,181
		4/1/2013	17,000	17,000	36,951	53,951
		4/1/2014	18,000	18,000	36,080	54,080
		4/1/2015	19,000	19,000	35,158	54,158
		4/1/2016	20,000	20,000	34,184	54,184
		4/1/2017	21,000	21,000	33,159	54,159
		4/1/2018	22,000	22,000	32,083	54,083
		4/1/2019	23,000	23,000	30,955	53,955
		4/1/2020	24,000	24,000	29,776	53,776
		4/1/2021	26,000	26,000	28,546	54,546
		4/1/2022	27,000	27,000	27,214	54,214
		4/1/2023	28,000	28,000	25,830	53,830
		4/1/2024	30,000	30,000	24,395	54,395
		4/1/2025	31,000	31,000	22,858	53,858
		4/1/2026	33,000	33,000	21,269	54,269
		4/1/2027	35,000	35,000	19,578	54,578
		4/1/2028	36,000	36,000	17,784	53,784
		4/1/2029	38,000	38,000	15,939	53,939
		4/1/2030	40,000	40,000	13,991	53,991
		4/1/2031	42,000	42,000	11,941	53,941
		4/1/2032	44,000	44,000	9,789	53,789
		4/1/2033	47,000	47,000	7,534	54,534
		4/1/2034	49,000	49,000	5,125	54,125
		4/1/2035	51,000	51,000	2,614	53,614
				<u>808,000</u>	<u>760,707</u>	<u>1,568,707</u>
Sewer Revenue Bond						
Date of issue 1/1/74;						
amount of issue \$ 450,000	5.000%	1/1/07-08	20,000	40,000	3,500	43,500
		1/1/2009	10,000	10,000	250	10,250
				<u>50,000</u>	<u>3,750</u>	<u>53,750</u>
Total business-type activities				<u>858,000</u>	<u>764,457</u>	<u>1,622,457</u>
Total indebtedness				<u>\$ 2,018,700</u>	<u>\$ 971,813</u>	<u>\$ 2,990,513</u>

**Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit
of Financial Statements Performed in Accordance
with Government Auditing Standards**

To the Honorable Mayor and Members of City Council
City of AuGres

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of AuGres as of and for the year ended June 30, 2006, which collectively comprise City of AuGres' basic financial statements and have issued our report thereon dated September 4, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of AuGres' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of AuGres' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the City of AuGres, management and federal awarding agencies and pass-through entities and is not intended and should not be used by anyone other than these specified parties.

Yeo & Yeo, P.C.

September 4, 2006
Saginaw, Michigan